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VIA EMAIL
Tech Forum
Bonneville Power Administration
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Re: Public Power Council Comments on Potential Changes to Network Open Season Requirements

Dear Tech Forum:

Thank you for the opportunity to comment on possible changes to Network Open Season (NOS) and the Commercial Infrastructure Financial Policy and Analysis (CIFP and CIFA). Public Power Council (PPC) has supported NOS since the idea was developed and continues to support the process. NOC has been very challenging in the last several years, however, due to BPA's previous willingness to construct major transmission facility expansions without sufficient financial commitments from customers whose transmission service requests required those new transmission facilities. The potential for default by, and the reform of some of the contracts of, some of these customers highlighted the significant financial risk that NOS creates for BPA; BPA cannot necessarily count on future transmission service revenues from those customers to finance new facilities. This led BPA recently to revise its financial and contracting requirements in NOS and the NOS process.

That background strongly informs our view of whether BPA should adjust certain parts of CIFP and CIFA. CIFP was initially a policy developed by the customers and BPA, in a sense negotiated by them, to provide an avenue to justify needed new transmission facilities while protecting BPA's transmission customers from rate increases and stranded investment. Protecting transmission customers and BPA's continued obligation to make prudent, business-like decisions regarding investments should remain front and center in BPA's decision-making.

With that in mind, we provide the following comments:

- CIFP currently requires that the net present value of the NOS project be positive in order for it to receive rolled-in rate treatment; in making that calculation the CIFA assumes that Network transmission rates increase 1% per year, such that the resulting upward rate pressure of the new transmission project is no more than 1% per year. BPA staff has asked whether that 1% limit should be increased; this would increase the likelihood that projects would receive rolled-in rate treatment but also increase the likelihood of transmission rate increases. We do not agree that rate increases should be effectively pre-determined by CIFA or that the 1% assumption should be increased. The fundamental premise of the CIFA analysis is that BPA should receive benefits sufficient to justify its costs, as well as to implement the FERC "or" pricing test. Given this, we believe that retention of the 1% limit is appropriate in that it sets a reasonable brake on large rate increases, while still making rolled-in rate treatment achievable.

Related to this limit, we further suggest that BPA revisit its CIFA in regard to other assumptions regarding revenues it expects to collect from the new transmission services provided due to NOS investments. Specifically, BPA should require a demonstration that NOS projects will not exceed that amount of upward rate pressure after adjusting the expected revenue from subscriptions to NOS projects to recognize the risk that not all revenues will be collected due to deferrals and possible defaults.[1] This would provide a more accurate forecast of the upward rate pressure. In September 2012 BPA staff asked whether the CIFA should assume that not all transmission contracts would roll over indefinitely but would terminate after 5 years, and that some amount of default should occur. We suggest that BPA should assume that at least 15% of the total megawatts under new contracts, with terms of 5 years or more, are not extended after 5 years. We also suggest that BPA should assume at least a 15% default rate for customers representing new generation that has not moved through the permitting stage. These assumptions should be made in calculating expected revenues from subscriptions to NOS projects and not as sensitivities.

- The Regional Economic Benefits Analysis (REBA) should be discontinued as a tool used in NOS, although it should continue to be utilized by BPA to assess the need for regional transmission projects. This is the correct outcome for two reasons. First, use of REBA to alter the outcome of the analysis of rate impacts by increasing the benefits to net against project costs introduces "benefits" that were not contemplated in the CIFP when customers and BPA agreed to that arrangement in 2007. Our understanding of the permitted non-reliability benefits were:

    - Reliability-related benefits (use of new facilities to meet NT load growth from existing and future resources; increased operational flexibility and ability to take outages);
    - Expected future uses of new facilities (including a look at regional Renewable Portfolio Standards and other factors); and
    - Additional regional economic benefits ("BPA includes in these benefits: the value of reduced losses on the system resulting from the addition of the commercial infrastructure, the value of expected reduction in RAS arming and tripping of generators, the reduced need to seek higher cost short-term power purchases due to reduced impact of outages, and the economic value of access to areas of higher expected average wind velocities that increase wind plant capacity factors and decrease overall cost of wind power to the region."[2]).

  We agree that regional benefits should be considered, as set out in policy above. To the extent that REBA helps quantify the benefits set out in the third bullet above, then REBA has an appropriate role in CIFP. To the extent that REBA identifies other "benefits" that

[1] *See* BPA, *Financial Analysis for NOS Reform*, Sept. 20, 2012, p. 8.
[2] BPA Transmission Services, *Transmission Services Commercial Infrastructure Financing Policy and Analysis (CIFA)*, p. 4 (apparent date Nov. 19, 2009).

are not expressly part of CIFP, however, its use could undermine the ratepayer protections in CIPF and CIFA. Use of REBA to override or adjust benefits in CIFA introduces the possibility of undue discrimination and preference to secure rolled in rates treatment of some projects but not others. We believe that BPA would not engage in that behavior, but leaving open the possibility of an exercise of discretion through REBA creates an appearance of impropriety because there is an opportunity for mischief. That opportunity should be eliminated. Second, the estimated benefits identified in REBA accrue to the region and would not necessarily be realized by BPA. These benefits, then, cannot reasonably count against BPA's costs in constructing NOS projects. The new facility would place costs on BPA customers, most of whom would be unlikely to realize any benefit but who would pay for the new facilities through increases to their BPA transmission rates. To this extent counting benefits identified in REBA creates an inequitable result. Moreover, if there were direct benefits to BPA that would be realized by BPA transmission customers through lower rates, presumably the other benefits identified expressly in CIFP would represent those, and to recognize those benefits again in REBA would double-count them.

- BPA's proposal to require the 2013 data submission requirements and 6-month security deposit for participation in future Cluster Studies has merit. The purpose of the NOS reform effort over the last two years was intended to ensure that BPA would be studying and constructing new transmission facilities for customers that would not impose additional, significant financial risks on BPA and its transmission customers. Additional security credit and security requirements were the result. We understand that the amount of deposits collected based from the 6-month security would be large; this in itself should not be a reason to change the policy.

  However, to the extent that BPA staff has determined that the 6-month deposit is deterring creditworthy customers, who are expected to roll-over their requested service and contribute to repaying BPA' s investment, we can understand the desire to lower the deposit amount. The purpose of the deposit is to secure BPA's costs of studying the transmission project(s) to provide new service. We suggest that BPA could reduce the deposit to one or two months of service payments or a pro rata share of 130-150% of the estimated study cost. BPA would still achieve its goal of securing its study costs, even if cost overruns occur.

  With regard to the data submission requirements, BPA staff has done a very good job of establishing that the information is important to accurate and useful transmission plans. Quality transmission plans are required to ensure that needed transmission is constructed without over-building or building the wrong facilities. We would not agree to a proposal to relax or eliminate this requirement.

Thank you again for the opportunity to comment on these issues. We look forward to further discussions with you on these and other NOS issues in the future.

Sincerely,

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